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Good Morning, Chairman Crapo, Ranking Member Brown, and members of the Committee. My name is Michael Garland and I am the Assistant Comptroller for Corporate Governance and Responsible Investment in the Office of New York City Comptroller Scott Stringer. Comptroller Stringer serves as a trustee to four of the five New York City Pension Funds and as the investment advisor and custodian to all five funds, which collectively have more than $200 billion in assets under management and a long history of active share ownership on issues of corporate governance and sustainability. It is an honor to be invited to provide this Committee with our perspective on important matters of shareowner responsibility.

The NYC Pension Funds (or "NYC Funds") together constitute a system made up of five independent public pension funds that provide retirement security to more than 700,000 of the City's active and retired teachers, police, firefighters, school employees, and general employees. Each of these constituencies has member representatives on the board of its respective fund.

With an average retirement benefit of $38,000 per year, it is likely that many of our members only participate in the capital markets through their role as pension fund beneficiaries. Our members are true Main Street investors, as opposed to a group using that name that represents the interests of company managers.

The NYC Pension Funds make up the fourth largest public pension system in the United States. We are long-term share owners of approximately 10,000 public companies around the world, including more than 3,000 U.S. companies.

Because of our long-term investment horizon, and the fact that we allocate more than 80% of the funds' investments in U.S. public equity through passive index strategies, we cannot readily sell shares in a company when we have concerns about the company's performance, board composition and quality, management, executive compensation, workplace practices or management of risks, including those related to climate change.

In these instances, the only way we can protect and create long-term shareowner value is to be an active owner of our portfolio companies by exercising our legal rights as shareowners. We (1) actively vote our proxies at each portfolio company, and (2) actively engage our portfolio companies, mainly through shareowner proposals and dialogue ensuing from those efforts, in order to promote sound corporate governance and responsible and sustainable business practices. In fact, over the last 30 years, the NYC Pension Funds have been the most prolific filer of shareowner proposals in the nation.

As long-term owners, we expect companies to create long-term, sustainable value. We push them to address a range of environmental, social and governance risks that are fundamental to ensuring long-term profitability. This is part of our fiduciary duty as long-term shareowners.

We believe sound corporate governance and sustainable business practices — the latter including responsible labor, human rights and environmental practices — are fundamental to creating and protecting long-term shareowner value and sustainable economies.

The link between environmental, social and governance factors (ESG), on the one hand, and risk management and long-term value creation on the other, is supported by a growing body of empirical research, including an important study from Harvard Business School in 2011.

The study tracked the performance of 180 U.S. companies for 18 years and found that that "High Sustainability" companies outperformed "Low Sustainability" companies in terms of both stock market performance and profitability. According to the study, High Sustainability companies are those that embrace corporate policies related to the environment, their employees, community, products, and customers.

Our capacity to fulfill our proxy voting and engagement responsibilities to our beneficiaries depends heavily on (1) the timely receipt of expert, independent proxy research, and (2) our longstanding ability to submit shareowner proposals and to cast votes on proposals submitted by other shareowners, regardless of their size or sophistication (or whether institutional or retail).

The NYC Funds have been filing shareowner proposals and voting our own domestic proxies for more than 30 years.

Mr. Chairman, it is an honor therefore to be invited to provide this Committee with our perspective on (1) the role of proxy advisory firms, their involvement in the voting process and their current regulatory treatment; (2) the shareowner proposal process; and (3) the level of retail shareowner participation, its causes and whether the relatively low level of retail participation compared to institutional investors is cause for concern.

The remainder of my testimony will address each of these topics in order.

Proxy Advisors

With respect to proxy advisory firms, we oppose any additional U.S. Securities and Exchange Commission (SEC) actions that would compromise the independence of research, reduce the amount of time we have to review research aimed at voting at that company's annual meeting, or that would otherwise impose additional costs on our participants and beneficiaries in terms of either added burdens on our staff resources or additional compliance costs imposed on our advisors, which we, as paying clients, would ultimately bear.

While proxy advisory firms have been the subject of vocal criticism, I find it remarkable the impetus for onerous regulation of those firms is coming from those who are the subject of the analysis — particularly board members, corporate executives and their lobbying organizations — rather than from the institutional investors who pay for the research services. To the extent that there are concerns on the quality of proxy advisory firm research, that is <u>our</u> problem as investor clients. Many of those who are the subject of the proxy analysis do not like to be criticized and receive negative vote recommendations, so they are reportedly lobbying aggressively and inappropriately to insert themselves between the proxy advisers and the clients of those advisors.

The chief allegation of these lobbyists is that proxy advisor clients "automatically follow" proxy advisor recommendations and therefore the proxy advisors have too much influence. This argument was reflected in the testimony before this Committee last June by Thomas Quaadman of the U.S. Chamber of Commerce. The Chamber and similar lobbyists apparently seek to sow seeds of doubt about the capabilities of institutional investors to exercise their own judgment. The unfounded suggestion is that when it comes to voting proxies, which are considered plan assets under relevant fiduciary law, sophisticated institutional investors — whose job is to manage billions of dollars of investment capital — are like lemmings, blindly following the recommendations of proxy advisors in our proxy vote decision-making. This does a great disservice and I want to disabuse Committee members of the notion that the argument of undue influence has merit.

Although Institutional Shareholder Services (ISS), the largest proxy advisory firm, recommended voting against say-on-pay proposals at 12.3 percent of Russell 3000 companies in 2018 (through November 1), only 2.4% of Russell 3000 companies received less than majority shareowner support on their say-on-pay proposals. According to Proxy Insight, which analyzes the voting records and policies of over 1,800 global investors and is the world's leading source of information on global shareowner voting, "the number of investors delegating their entire policy and voting to a proxy voting advisor is actually very low – from a sample of 1,413 investors, 75% have their own dedicated proxy voting policy representing a significant 92% of the assets under management.” According to ISS, 85 percent of its top 100 clients use a custom voting policy.

The NYC Funds are among the proxy advisor clients that use custom policies. In our case, we have one policy that applies specifically to the U.S. market, which we first adopted in 1987. We have a second set of policies, adopted later, that apply to non-U.S. markets. While we have been voting our own U.S. proxies for more than 30 years, just this year the Comptroller’s Office took back voting control of our entire global portfolio from our outside investment managers. Both policies, which are updated regularly, establish voting principles and positions on a broad range of issues, consistent with our views on how best to maximize long-term shareowner value.

I would like to provide the Committee with a window into our proxy voting process and the essential role that proxy advisors play in enabling institutional investors like us to comply with our fiduciary duty to vote proxies.

Like other institutional investors with custom policies, we use the research we receive from both of our proxy advisors as a critical inputs into how we apply our own guidelines. The specific proxy voting recommendations from the proxy advisors are entirely irrelevant to our process. In fact, as I will discuss in a moment, there is little correlation between their recommendations and our votes on executive pay, perhaps the most sensitive and contentious issue from the issuers’ perspective (and likely the most important element leading CEOs and their representatives to seek onerous regulation of proxy advisors).

For the year ending June 30, 2018, our office cast 71,000 individual ballots at 7,000 shareowner meetings in 84 markets around the world, each market with its own governance norms and matters subject to shareowner voting. Consistent with our commitment to transparency, all of our proxy voting decisions are available on our website for our participants and beneficiaries, and our portfolio companies, to review.

During the peak of U.S. proxy season, which runs from April to the end of June, the number of meetings and votes is very large, putting a premium on having a high-quality, efficient process, to which the proxy advisory firms are indispensable . In the U.S. market, every ballot item, including each management and shareowner proposal, is individually reviewed and voted by our voting staff. We have five full-time staff dedicated to proxy voting during peak season, and our least-tenured investment analyst has 12 years’ experience applying the NYC Funds’ domestic proxy voting guidelines. All votes are cast according to our own guidelines irrespective of the proxy advisors’ voting recommendations. Given the volume of annual meetings, and the complexity of company proxy disclosures, particularly with respect to executive compensation, our ability to apply our own guidelines rests in large part on the timely receipt of the independent, expert research we receive from our two proxy advisors (presently ISS and Glass Lewis).

Much of the information we obtain from the advisors' research reports is available in company proxy statements. But different companies present much of the important information in different ways and in various places. Just as our investment advisors rely on intermediaries like Bloomberg and FactSet to organize data from company disclosures, we rely on proxy advisory firms to pull information into a consistent format that permits quick reference to comparable data. Our ability to locate and calculate the necessary data points without this research would impose an unreasonable burden on the investment analysts who vote our proxies.

In addition to organizing and presenting in a uniform way information that is already somewhere in the proxy statement, the proxy advisors provide independent value-added analysis, such as peer group comparisons for executive compensation and total shareowner returns, the robustness of hedging and pledging policies, board gender diversity by percent — all of which are required to apply our guidelines. I would note that many company complaints of "inaccuracies" are that the proxy advisors use their own frameworks, rather than those of the company involved, to analyze issues (e.g., ISS and Glass Lewis have their own definitions of director independence, leading to multiple company complaints of "inaccuracy" because the analysis does not parrot the company-favored definitions).

As an example of our independence, while the NYC Funds voted against say-on-pay at 25.4 percent of our U.S. portfolio companies for the year ending June 30, 2018, ISS only recommended against say-on-pay at 16.7 percent of these same companies.

We recognize our responsibility to vote proxies with diligence and integrity, and in the best long-term interests of our participants and beneficiaries. We do not want company management interposed between us and our research service providers, and this is even more true if it involves additional cost and delay, giving us less time for our due diligence on each proxy vote.

Shareowner Proposals

In our experience, as both a proponent and proxy voter, the shareowner proposal process is an essential and cost-effective tool for investors to protect and enhance value by aggregating and expressing their views to management, boards and other shareowners on major governance issues, corporate policies and important and emerging risks and opportunities. The NYC Funds have used shareowner proposals to prompt portfolio companies to constructively engage on specific concerns in ways that benefit the investing public.

Critics of shareowner proposal rights are seeking to remedy problems that do not exist. For example, critics of shareowner proposals claim that such proposals are deterring companies from going public, and thereby distorting our capital markets. This claim is highly implausible.

Proposals generally are non-binding, and the average Russell 3000 company can expect to receive a proposal once every 7.7 years. Most proposals go to larger, established companies.

The notion seems to be that a company would forgo the benefits of efficient public equity markets to avoid the possibility that, sometime in the next decade or so, a shareowner might submit a non-binding proposal to (for example) ask for improved disclosures around climate risk. This claim too is simply not plausible.

U.S. public equity markets are efficient, broad and deep. It is true that private equity markets also are larger and more efficient than in the past, and that some new economy companies have less need for capital than companies that emerged in earlier years, and can gain high valuations without needing to go to public markets. But that has nothing to do with shareowner proposals.

Outside investors (in both publicly held and private companies) want some means to protect their interests, and to hold management accountable. For public companies, that means providing outside shareowners with certain rights, including the right to file shareowner proposals, along with other regulatory and disclosure requirements that are the cost of admission to public markets, where companies have a dispersed shareowner base.

The NYC Funds have a proud record of engaging our portfolio companies on a broad range of environmental, social, and corporate governance issues, and thereby working to enhance long-term shareowner value, often through shareowner proposals. Our funds have filed more than 1,000 shareowner proposals, almost certainly more than any other institutional investor in the world, with a record dating back 30 years. And our shareowner proposal initiatives have led to significant market changes.

Among important changes that the NYC Pension Funds' shareowner proposals have helped achieve over the last 30 years (and often working in parallel with other institutional investors):

- Substantial independent majorities on boards of directors
- Enhanced standards of independence for members of company audit and compensation and nominating committees
- Strengthened policies to enhance board diversity
- Enhanced company disclosures on board composition and skills
- Annual election of all directors
- Proxy access rights
- Majority vote standards in election of directors
- Shareowner advisory votes on executive compensation
- Effective clawback policies
- Company disclosure of corporate lobbying and political spending
- Emphasis on performance-based awards in executive compensation

- Company policies prohibiting discrimination based on sexual orientation or gender identity

A particularly good example of market change from shareowner proposals relates to "proxy access" — that is, a mechanism to permit shareowners to include their nominees on the company proxy card for a minority of board seats under certain circumstances. In 2014, Comptroller Stringer and the NYC Funds launched the Boardroom Accountability Project, a campaign to implement proxy access on a company-by-company basis in the U.S. market using shareowner proposals.

Proxy access had long been a top priority for the NYC Pension Funds and other institutional investors. We applauded in 2003 when the SEC first proposed a proxy access rule in response to board failures at Enron and WorldCom. The SEC in 2009 again proposed a proxy access rule as a key response to the governance failures that contributed to the financial crisis of 2008. As authorized by the Dodd Frank Act of 2010, the SEC enacted a proxy access rule in August 2010. The rule provided shareowners that collectively held 3 percent of a company's shares for at least three years the ability to nominate director candidates representing up to 25 percent of the board using the company's proxy materials. In September 2010, however, the Business Roundtable (BRT) and U.S. Chamber of Commerce successfully challenged the proxy access rule in federal court. While the BRT and the Chamber opposed a universal rule, they implicitly endorsed the kind of private ordering they now oppose, and we called their bluff with our shareowner proposal effort.

Today, largely as a result of the Boardroom Accountability Project, approximately 540 U.S. companies, including 70 percent of S&P 500 companies, have enacted proxy access bylaws with terms similar to those in the vacated SEC rule, up from only six companies in 2014 when we launched the project.

In July 2015, economic researchers at the SEC released a study that analyzed the public launch of the Boardroom Accountability Project and found a 0.5 percent increase in shareowner value at the first 75 firms that received proxy access shareowner proposals from the NYC Funds. (See http://www.sec.gov/dera/staff-papers/working-papers/24jul15_bhandari_public-vs-private.html.) The SEC staff's findings were consistent with a 2014 CFA Institute study that found that proxy access on a market-wide basis has the potential to raise U.S. market capitalization by as much as 1 percent, or $140 billion.

As another example, the NYC Funds won significant change on company clawback policies, making use of shareowner proposals. Motivated by the small number of top executives held accountable for the excessive risk taking and compliance failures that led to the global financial crisis, the NYC Funds have fought for strong policies to enable boards at many major banks to claw back compensation from senior executives responsible for egregious misconduct that causes financial or reputational harm to their companies. In 2013, in response to a shareowner proposal, we successfully negotiated this enhancement to Wells Fargo's clawback policy. It was that policy that then enabled the Wells Fargo board of directors to announce in September 2016 that it would recoup $60 million from two senior executives in order to hold them financially accountable for the fake account scandal that involved the loss of jobs by 5,300 lower-level employees and cost Wells Fargo $185 million in fines and penalties.

<u>Rule 14a-8 and the No-Action Process</u>

SEC Rule 14a-8 — which governs the shareowner proposal process — is largely effective, and is based on sound analysis of costs and benefits. Adjudication through court proceedings are substantially more expensive for all parties than the no-action process. We know this from experience, as we usually are satisfied with the SEC no-action process on our shareowner proposals (and have usually accepted rulings against our proposals), but on occasion have been moved to go to court when we believed an SEC staff decision was not warranted.

The 13 permitted exclusions reflect the SEC's determination as to what issues are or are not important enough to shareowners as a whole to warrant giving shareowners a vote. Thus, if a shareowner who meets the holding requirements wishes to present a topic that surmounts the 13 enumerated bases for exclusion, there is a benefit to all shareowners in terms of being able to have a say on what is, by definition, a policy matter affecting their interest as shareowners.

While the SEC has generally applied the rules fairly, there have been instances in which the SEC reversed precedent unfairly and to the significant detriment of investors, sometimes prompting the NYC Funds to seek legal recourse.

The first such instance was in 1992, when the New York City Employees Retirement System (NYCERS, one of the five NYC Pension Funds) filed a shareowner proposal asking Cracker Barrel to adopt a policy of non-discrimination based on sexual orientation (the company had a policy against hiring gay employees). The SEC not only permitted the company to omit the proposal from its ballot because it dealt with "ordinary business," but also set a new standard whereby employment-based shareowner proposals would "always be excludable by corporations." NYCERS challenged the decision in court. While the lawsuit was unsuccessful (NYCERS lost on appeal), the resulting investor outcry later prompted the SEC to reverse its position, paving the way for investors to challenge workplace discrimination and address employment practices in shareowner proposals.

Today, largely in response to hundreds of shareowner proposals submitted by the NYC Funds and other investors, nearly 92 percent of Fortune 500 companies have non-discrimination policies protecting employees on the basis of sexual orientation, and 82 percent include gender identity in those policies. A 2016 analysis by Credit Suisse found that 270 companies that provided inclusive LGBTQ work environments outperformed global stock markets by 3% for the previous six years.

Together with proxy access, this is among the NYC Funds' signature shareowner initiatives in terms of changing market practice.

Just as the SEC's Cracker Barrel decision threatened to unfairly and permanently exclude shareowner proposals on employee-related issues, last year's decision by the SEC to permit EOG Resources to exclude a proposal relating to greenhouse gas (GHG) emissions threatens to similarly undermine investors' ability to file proposals addressing fundamental risks related to climate change. The proposal would have required EOG to "adopt company-wide, quantitative, time-bound targets for reducing greenhouse gas emissions and issue a report, at reasonable cost and omitting proprietary information, discussing its plans and progress towards achieving these targets." The SEC staff found exclusion appropriate on the grounds that the proposal sought "to micromanage" the company, despite the broad language in the proposal simply seeking the use of goals, as used by many other companies (more than 60% of Fortune 100 companies already set GHG emission targets). This was a sharp reversal of earlier SEC views on climate change proposals.

In 2018, the NYC Funds requested that six additional companies include nearly identical resolutions in their proxy solicitation materials. The proposal was withdrawn at four of the companies, with three agreeing to substantially implement the proposal.

We plan to file similar proposals for 2019. Already though, one recipient of that proposal, perhaps feeling emboldened by last year's EOG no-action letter, has sought no-action relief from the SEC on the grounds of "micromanagement."

I would like to address two elements of Rule 14a-8 that have received particular attention in recent months: the ownership threshold (currently $2,000 in shares or 1 percent of shares, whichever is lower) and voting support thresholds to resubmit a proposal.

Ownership threshold: There was no ownership threshold (other than ownership of at least one share of stock) until 1983, when the SEC began requiring that the proponent(s) have held at least $1,000 in shares continuously for at least one year. The SEC raised this threshold to $2,000 in 1998, more or less in line with inflation in the intervening period. The SEC's view in adopting a threshold was that retail and other smaller investors should have access to use of shareowner proposals, but with some minimal level of ownership.

In our view, shareowners of any size should have the opportunity to use the shareowner proposal mechanism. Large institutional investors do not have a monopoly on good ideas. New York City pension funds supported about 77 percent of shareowner proposals in 2018, many from smaller investors including retail shareowners.

Section 844 of the Financial Choice Act, approved by the U.S. House of Representatives in 2017, includes a provision that would dramatically increase the ownership threshold, and require investors to have held a minimum of 1 percent of an issuer's voting securities for at least three years. If this had applied in the past, it would have eliminated all or nearly all shareowner proposals that have ever been submitted. For example, despite being among the largest pension investors in the world, NYC Funds rarely hold more than 0.5 percent of any individual company, and most often hold less. As a result, the Choice Act would effectively prevent our funds entirely from participating in the shareowner proposal process. To submit a shareowner proposal today at Microsoft or Apple, given share prices at the end of November, would have required ownership of at least $85 billion in shares at each company, far more than the $1.6 to $2.2 billion we currently have invested in each of these two companies.

Keith Higgins, the former director of Corporation Finance at the SEC, said in 2018, "How do you ever determine the 'right' level of ownership that should trigger the right to cause the company to include a shareowner proposal in its proxy statement? $2,000 seems low — but what is a better number? A February memo from the House Financial Services Committee suggested modernizing the threshold for inflation, but that is unlikely to have any meaningful impact." (An adjustment for inflation would put the threshold at about $3,000 in 2018 dollars.)

Resubmission thresholds: In 1948, the SEC first set a resubmission threshold, providing that a proposal that failed to earn at least 3 percent support in a year could be excluded from company proxy materials the next year. In 1954, the SEC set the current rule, providing for exclusion if a proposal did not earn at least 3 percent support the first year it is voted on, 6 percent the second year and 10 percent the third and subsequent attempts within five years. Attempts to raise the thresholds modestly in 1983 and drastically in 1997 failed, in 1997 because of overwhelming investor opposition that led the SEC to conclude that higher thresholds just did not make sense.

There is good reason for keeping resubmission thresholds relatively low. It can take many years, and different approaches and iterations, to build investor support for a shareowner proposal. The proposal for a sexual orientation nondiscrimination policy at Cracker Barrel received only 14 percent of the vote when it was first on the ballot in 1993. Similar proposals received less than 10% of the vote into the early 2000s, but by 2011, the NYC Funds received a 62% majority vote on such a proposal at KBR. Similarly, proposals for annual election of all directors, increased board diversity, and better disclosure on environmental impacts and risks all started out with limited support that grew substantially over the years.

Moreover, a proposal with limited support in a given year can become highly important if circumstances change. In 2007, a nonbinding shareowner proposal for an independent chair at Bank of America won only 16 percent support. Two years later, an unusual binding proposal for an independent chair was approved by Bank of America shareowners, after the company's share price had declined more than 90% in a short period of time during the financial crisis. That proposal became a key element in expression of shareowner views on changing leadership at the bank, without the necessity or disruption of a hedge fund activist campaign to elect a new board majority. While not diminishing regulatory influence in improving Bank of America governance, I would argue that that successful shareowner proposal, which received such limited support two years earlier, was critical in evolutionary change that built a much better, more stable bank that was responsive to shareowners as well as regulators.

To highlight another concern, the SEC resubmission rule applies broadly to proposals "on the same subject matter." A proxy access proposal at Netflix received support from 4.4 percent of the vote in 2013. From 2015 to 2018, Netflix shareowners annually approved a different NYC Funds' proxy access proposal – advocating different eligibility requirements – that would have been excluded if thresholds had been raised. And recently, we have seen efforts to pre-empt proposals in a given year urging stronger policies on climate change by a group submitting a proposal to go in the opposite direction. With high resubmission thresholds, that kind of mischief-making would be encouraged on a broader scale as long as the SEC policy refers to "the same subject matter" rather than "the same proposal."

The Netflix case points to another concern: the playing field is tilted in favor of management when shareowners propose change. The fact that Netflix has refused to implement multiple shareowner proposals receiving majority votes, and challenges to shareowners in submitting binding proposals of the sort used at Bank of America in 2009, shows this is not an even playing field, as does the fact a company is unlimited in the length it can use to oppose a proposal, while the shareowner proponent is limited to 500 words; corporate management can call on company resources to hire counsel to pursue no-action requests, while the proponent engages in that debate at her own cost; and management has access to preliminary voting tallies, which can help management organize its effort when there is a close vote, while the shareowner proponent now has access to such tallies only with permission of management.

Finally, we need to recognize that a significant subset of U.S. companies provide insiders with special voting rights that make the current resubmission thresholds effectively quite high, as they are based on "votes" and not "shares." At Facebook this year, a shareowner proposal requesting that the board establish a risk oversight committee received support from 11.6% of votes, but that appears to represent 34.2 percent of shares held in the publicly-traded share class (that is, setting aside the super-voting shares with 10 votes per share held almost completely by insiders). Another proposal requested a report to shareowners on management of risks posed by content management policies (including election interference, fake news, hate speech, sexual harassment and violence) to the company's finances, operations and reputation. That proposal was supported by 10.2% of votes, but apparently our votes were among the 30.0% of shares held in the publicly traded share class that voted for the proposal.

While Facebook minimized the need to improve risk management, others would point to the substantial loss of shareowner value since the company's 2018 annual meeting as validating the concerns of a significant portion of outside shareowners. It would be unfortunate if resubmission thresholds ruled shareowner proposals on risk management at Facebook out of bounds for the next several years.

Retail shareowner participation

All shareowners regardless of their ownership stake, should have the opportunity to fully exercise the rights of share ownership, casting proxy votes consistent with their investment preferences and objectives, **and** submitting shareowner proposals.

Retail shareowner participation in proxy voting has fallen in recent years. According to Broadridge, retail voting participation averaged 28.4 percent for the 10 years ending June 30, 2017, compared to over 90 percent for institutional shareowners. While encouraging retail shareowner participation is commendable, it may be that some retail shareowners prefer to abstain from voting so that they can defer to the corporate governance expertise of institutional investors who have a fiduciary duty to vote. One trend is apparent from the data. The recent decline in retail voter participation is directly correlated to companies choosing to eliminate paper mailings of proxy materials as a cost savings measure. Retail shareowners are twice as likely to vote when they receive paper proxy materials relative to e-delivery or notice and access mailings, illustrating that technology-based solutions can have unintended consequences . For this reason, the electronic delivery of proxy materials should be opt-in, not opt-out.

We should encourage efforts like CorpGov.net, FundVotes, and Stake PBC that in various ways seek to foster retail voting and participation in the shareowner proposal process. Some other proposals on the table, such as client directed voting, whereby a shareowner could choose to automatically vote with management, are potentially problematic. Such a system would only be democratic if retail shareowners are given a genuine choice in who would cast their votes.

Absent genuine choice, client-directed voting would simply be a form of “robo-voting” for management. It is curious that some of the same groups who are advocating for client-directed voting are sounding alarms that some institutional investors may follow vote recommendations from independent, expert proxy advisors.

Conclusion

In summary, I would argue that the rights of investors to vote proxies, consistent with our investment objectives and preferences as informed by the advice of our expert advisers, and to constructively engage our portfolio companies using shareowner proposals are the kind of system of property rights that Nobel Prize winning economist Milton Friedman argued are fundamental to the efficient functioning of a Capitalist economy. Friedman also argued that the proper role of government should be to protect and enforce property rights. We oppose any SEC actions that would infringe on these fundamental investor rights, which in their present form have served investors and market participants well.

Thank you again for the opportunity to testify today. I commend the Committee for holding this hearing and welcome your questions.